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281256Z Sep 04

UNCLAS SECTION 01 OF 02 ANKARA 005553

SIPDIS

SENSITIVE

TREASURY FOR OASIA - ADKINS

E.O. 12958: N/A

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SUBJECT: TURKEY TO LAUNCH NEW CURRENCY

SENSITIVE BUT UNCLASSIFIED.

1. (SBU) SUMMARY. THE TURKISH CENTRAL BANK (CBRT) AND GOVERNMENT HAVE LAUNCHED A MAJOR PUBLIC RELATIONS CAMPAIGN TO SMOOTH THE INTRODUCTION OF THE "NEW TURKISH LIRA" (YTL) ON JANUARY 1, 2005. TURKISH OFFICIALS EXPECT QUICK ADOPTION OF THE NEW CURRENCY, ONE UNIT OF WHICH WILL BE EQUIVALENT TO ONE MILLION "OLD" TURKISH LIRA. FURTHERMORE, THE CENTRAL BANK-ORGANIZED CAMPAIGN WILL TARGET POSSIBLE NEGATIVE SIDE EFFECTS FROM THE TRANSITION PERIOD SUCH AS PRICE INCREASES FROM ROUNDING-OFF. THE GOT IS USING THE INTRODUCTION OF THE NEW TL TO HIGHLIGHT ITS SUCCESS IN THE REDUCTION OF INFLATION SINCE THE 2001 FINANCIAL CRISIS. END SUMMARY.

2. (U) IN A SEPTEMBER 24 PRESS CONFERENCE HELD SEPTEMBER 24, CENTRAL BANK (CBTR) GOVERNOR SUREYYA SERDENGECI ANNOUNCED THE LAUNCH OF A NATIONWIDE INFORMATION PUBLIC INFORMATION CAMPAIGN TO INTRODUCE THE "NEW TURKISH LIRA" (YTL). THE NEW CURRENCY WILL GO INTO CIRCULATION ON JANUARY 1, 2005 WITH ONE YTL EQUIVALENT TO ONE MILLION OF THE CURRENT TURKISH LIRA (TL) (1,000,000 TL = 1 NTL). AFTER A FEW YEARS "NEW" WILL BE DROPPED FROM THE NAME OF THE CURRENCY AND TURKISH MONEY WILL BE KNOWN AS "TL" AGAIN.

WHY A NEW CURRENCY UNIT?

3. (U) TURKEY'S DECADES OF HIGH INFLATION WAS REFLECTED IN A HUGE AMOUNT AND VOLUME OF BANKNOTES IN CIRCULATION. THE VALUE OF BANKNOTES IN CIRCULATION INCREASED FROM TL 278.6 BILLION ON 31 DECEMBER 1980 TO TL 7.6 QUADRILLION AT THE END OF 2002, A 27,407-FOLD INCREASE. AS A RESULT, BANKNOTES WITH VERY LARGE DENOMINATIONS MADE THEIR WAY INTO CIRCULATION SINCE 1981, DRIVING OUT SMALLER DENOMINATIONS. FROM 1927 TO 1980, DENOMINATIONS VARIED FROM 50 KURUS (ONE HUNDREDTH OF A LIRA) TO 1,000 TURKISH LIRA. TODAY, THE LIRA CIRCULATES IN DENOMINATIONS OF 250,000; 500,000; 1,000,000; 5,000,000; 10,000,000 AND 20,000,000. THE HIGHEST VALUE NOTE IS WORTH ONLY ABOUT \$14, CREATING AN IMAGE PROBLEM FOR TURKEY AND PRACTICAL PROBLEMS FOR VISITORS, CONSUMERS, AND BUSINESSES ALIKE. NEW BANKNOTES WILL BE ISSUED IN DENOMINATIONS OF 1, 5, 10, 20, 50 AND 100 YTL AND COINS WILL BE WORTH 1, 5, 10, 25, AND 50 NEW KURUS. THERE WILL ALSO BE A 1 NEW LIRA COIN.

CONCERNS ABOUT ROUNDING OFF

4. (U) IN CONVERSIONS TO -- AND TRANSACTIONS WITH -- THE NTL, CURRENT TL VALUES HIGHER THAN ONE HALF OF A NEW KURUS ARE TO BE ROUNDED OFF TO ONE NEW KURUS. VALUES LOWER THAN A HALF NEW KURUS SHALL NOT BE TAKEN INTO ACCOUNT. MANY CONSUMERS AND NEWSPAPERS HAVE EXPRESSED A FEAR THAT MERCHANTS WILL TAKE ADVANTAGE OF THE CURRENCY CHANGE TO RAISE PRICES, AS IS WIDELY BELIEVED TO HAVE HAPPENED WHEN EU COUNTRIES INTRODUCED EURO NOTES IN 2001. CBTR OFFICIALS, HOWEVER, TOLD US THEY THOUGHT THE RISKS OF THIS WERE MINIMAL, NOTING THAT THE SIMPLE DROPPING OF SIX ZEROS REDUCED THE OPPORTUNITIES FOR CONFUSION AND ABUSE. MANY LARGE STORES ARE ALREADY DISPLAYING PRICES IN BOTH YTL AND TL.

CHANGE OVER EXPECTED TO TAKE PLACE QUICKLY

5. (SBU) CBRT VICE-GOVERNOR SUKRU BINAY TOLD ECON OFFICERS THAT THE BANK EXPECTS THE TOTAL COST OF THE SWITCHOVER OPERATION TO THE ECONOMY TO AMOUNT TO AROUND USD 160 MILLION (INCLUDING THE COST OF PRINTING AND DISTRIBUTING NEW NOTES). OLD BANKNOTES WILL CO-

CIRCULATE WITH YTL NOTES UNTIL THE END OF 2005, WHILE OLD COINS WILL BE REMOVED FROM THE MARKET AS OF JANUARY 1, 2005. BINAY EXPECTS 80 PERCENT OF OLD BANKNOTES TO BE CONVERTED BY THE END OF FEBRUARY 2005. HE THOUGHT THAT THE PROCESS WOULD BE SPEEDED-UP THANKS TO THE RELIGIOUS HOLIDAY (BAYRAM) IN FEBRUARY 2005, SINCE CASH IN CIRCULATION HISTORICALLY INCREASES DURING BAYRAMS. BINAY DOES NOT EXPECT ANY PROBLEM TO OCCUR IN FINANCIAL OPERATIONS, FINANCIAL MARKETS, OR IN TRANSACTIONS ON JANUARY 1, 2005. HE SAID THE ISTANBUL STOCK EXCHANGE WILL BE CLOSE ON DECEMBER 30 AND 31 FOR ADJUSTMENTS, BUT THAT ALL OTHER FINANCIAL MARKETS WILL STAY OPEN THOSE DAYS. HE SAID BANKS, GOVERNMENT AGENCIES, REGULATORY BOARDS, AND PRIVATE COMPANIES HAD MOSTLY COMPLETED THEIR SOFTWARE CONVERSIONS. BINAY ALSO NOTED THAT HE DID NOT EXPECT ANY INFLATIONARY IMPACT ON THE ECONOMY DUE TO ROUNDING UP. TO THE CONTRARY, HE EXPECTED THAT PRIVATE BUSINESSES WOULD ROUND DOWN PRICES WHEN CONVERTING INTO NEW TL DUE TO THE HIGHLY COMPETITIVE RETAIL ENVIRONMENT -- PARTICULARLY FOR LOW PRICE CONSUMER GOODS.

16. (U) THE MAIN YTL IMPLEMENTATION CHALLENGES ARE IN INFORMATION TECHNOLOGY AND PAYMENTS SYSTEMS, ACCOUNTING AND STATISTICAL INFORMATION, BANKNOTE ISSUANCE, CIRCULATION PLANNING, AND PROVISION OF SECURE BANKNOTES. ALSO FROM JANUARY 1, 2005, ALL ACCOUNTING DATA WILL BE IN YTL, DESPITE THE FACT THAT BOTH TL AND YTL WILL BE IN CIRCULATION DURING 2005.

17. (SBU) UNLIKE THE CBRT, RETAIL BUSINESSES SAY THEY EXPECT SOME MINOR PROBLEMS IN EARLY JANUARY 2005, SUCH AS PROBLEMS WITH AUTOMATIC CASH REGISTERS AND ATM'S. OLD PEOPLE AND INHABITANTS OF RURAL AREAS REPORTEDLY FEAR THAT THEY WILL LOSE THEIR WEALTH. ACCORDING TO A PRESS SURVEY, THEY FEEL THAT THEIR ACCOUNTS AND SALARIES WILL DIMINISH. CBRT VICE-GOVERNOR BINAY TOLD US THAT THEY WERE AWARE OF THESE ISSUES, AND WOULD FOCUS THEIR INFORMATION CAMPAIGN MOSTLY ON THESE SEGMENTS OF SOCIETY.

EUROPEAN UNION OBJECTS

18. (U) IMAGES AND SECURITY FEATURES OF THE NEW CURRENCY HAVE NOT YET BEEN MADE AVAILABLE TO THE PUBLIC, BUT ARE EXPECTED TO BE MADE KNOWN IN OCTOBER. THE TURKISH PRESS RECENTLY REPORTED THAT THE EU HAD WARNED TURKEY REGARDING A RESEMBLANCE OF YTL COINS TO EURO COINS THAT COULD CAUSE A PROBLEM IN TELLER MACHINES. TURKISH OFFICIALS SAID TURKEY WAS TRYING TO MINIMIZE THE RESEMBLANCE TO AVOID PROBLEMS. BINAY SAID INTERNATIONAL COINAGE EXPERTS WERE STUDYING THE ISSUE AND WOULD REPORT TO THE EU COMMISSION.

COMMENT

19. (SBU) THE INTRODUCTION OF THE NEW TL IS A PRAGMATIC MEASURE DESIGNED TO MAKE THE CURRENCY LESS UNWIELDLY. THE GOT IS NEVERTHELESS TRYING TO CAPITALIZE ON THE INTRODUCTION OF THE NEW TL AS A SYMBOL OF THE SUCCESS OF ITS DISINFLATION CAMPAIGN, GLOSSING OVER THE FACT THAT THE REDUCTION IN INFLATION HAS BEEN ACCOMPLISHED BY THE INDEPENDENT CENTRAL BANK, RATHER THAN BY THE GOT.

110. (U) EXTENSIVE BACKGROUND INFORMATION ON SWITCHOVER ISSUES CAN BE FOUND ON THE CENTRAL BANK'S WEBSITE: [HTTP://WWW.TCMB.GOV.TR](http://www.tcmb.gov.tr) AND AT [HTTP://WWW.YTL.GEN.TR](http://www.ytl.gen.tr).
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